



China: The Pet Food Market for U.S. Exporters

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Summary

It is well known that China has been one of the world's fastest growing economies in recent years. China experienced a six-fold increase in GDP between 1984 and 2004ⁱ, with real wages increasing by an average annual rate of over 13% since 2001.ⁱⁱ This in turn has translated into a rise in disposable incomes, particularly in China's urban areas.

One result of China's newfound wealth has been the growing desire among many Chinese to possess items that demonstrate their social status, identity and style. The dramatic rise in pet ownership in China over the past few years can be attributed, at least in part, to this. Consequently, as pet ownership in China has seen a sharp increase, so too has the demand for pet food and pet care products and services.

Although the pet food and pet care products market presents a burgeoning opportunity, there are challenges U.S. companies must overcome. With low cost production available domestically, foreign manufacturers find they cannot compete solely on price with their Chinese counterparts. Furthermore, there are lengthy and complex regulatory procedures to contend with. However, with preparedness and due diligence U.S. companies can take advantage of opportunities in this market.

Market Data

According to market research compiled by Euromonitor International, China's pet population grew by 20% between 1999 and 2004. During this same period of time, the percentage of the Chinese population owning dogs and cats increased from 5% and 14% to an estimated 7% and 15% respectively. Meanwhile, estimates for the sales of dog and cat food reached nearly RMB 1.6 billion in 2004.ⁱⁱⁱ Since the general consensus is that China's economy will continue to grow in the years to come, one can expect that pet ownership and the demand for pet food and pet care products and services will also increase.

Although dog and cat food exports from the United States to China have decreased in recent years, China's overall imports of dog and cat food have increased from roughly \$2.3 million USD in 2002 to over \$3.6 million USD in 2004.^{iv} (China's imports of other pet-related products such as animal coats, collars and leashes, and pet shampoo, have also seen a dramatic rise in recent years.^v) Three reasons for the recent decrease in US pet food exports to China include China's BSE ban on products containing beef, as well as the rapid increase of China's pet food imports from other countries (including Australia, New Zealand, and Thailand)^{vi}, and the increasing availability of cheaper, domestically produced pet food as domestic producers improve product quality and build brand recognition.^{vii} Accordingly, US companies who are looking to break into China's pet food market need to prepare themselves for competition not only from large multinationals but also from increasingly sophisticated domestic Chinese producers.

China's demand for pet care and veterinary services is also on the rise. This is perhaps best illustrated by the increasing number of pet shops and pet grooming businesses that now exist in China's cities^{viii}, as well as the increase in the number of animal hospitals, dog shows, and even

dog clubs in China's cities.^{ix} This in turn has led to a growing sophistication among China's pet owners, many of whom can now afford and are starting to demand higher quality food and healthcare products for their pets.

Prospective Buyers

All dogs in China are required to have a license. (Cats, however, do not require a license.) The cost for registering a dog in order to get a license is extremely high – as high as \$1,200 USD in places like Guangzhou.^x This does not include the annual fee associated with owning a dog, let alone vaccination expenses. These expenses are extremely high, especially when considering that the average annual urban income is approximately \$1000USD.^{xi} In spite of these costs, however, dog ownership is still very popular (though the number of unregistered, illegal dogs far outnumbers those that are registered).

The above-mentioned rise in disposable income, together with the increasing sophistication of China's pet owners, represent an opportunity for US pet food manufacturers. However, since US pet food is generally priced higher US companies should focus on competing for upper-class market share. Doing so will require that they distinguish themselves based on product line (e.g., greater choice/variety), quality and service.^{xii} Examples of how a US company may do this include various innovative marketing techniques such as perhaps co-sponsoring an event with a local dog-club or animal hospital (similar to what has been done by foreign companies in other industries^{xiii}), or offering improved / innovative packaging.

Market Issues & Regulatory Environment

There are a number of items that a company needs to look into prior to exporting their pet food or pet care products to China.^{xiv} The regulatory requirements will vary depending on the type of product that one is interested in exporting to China (e.g., pet food or pet shampoo). A good rule of thumb is to first determine what organization / agency regulates the sale of the item in the US (e.g., FDA, USDA, etc.). Chances are the corresponding Chinese governmental organization will regulate the sale of the item in China. Always request that the importer check with the local government officials in China to see what requirements need to be met in order to import the items (and sell the items within) China.

The following information is meant to provide a general overview of the regulatory requirements for exporting pet food to China:

PET FOOD PRODUCTS

Several requirements need to be met on both the US side and Chinese side before pet food items can be exported to China. Below is a very general overview of the requirements on the US side (i.e., prior to export). Please bear in mind that pet food exports to China face serious obstacles (e.g., PCR testing for bovine and ovine content, etc.). Be sure to check with your local U.S. Dept. of Agriculture Animal Plant Health Inspection Service (APHIS) office, as well as one of the Dept. of Agriculture's Foreign Agricultural Service (FAS) offices in China, prior to exporting any pet food items to China. Contact information for these offices can be found below.

Steps required on the US side:

A. Process for New Inspections:

1. The company requests inspection by a USDA APHIS. You can locate your local APHIS area office on the following website: http://www.aphis.usda.gov/vs/area_offices.htm
2. APHIS then performs the inspection, and sends the completed inspection checklist for China to the NCIE ("National Center for Import and Export"). The company may request a copy of this

inspection checklist for China in advance by contacting their local APHIS office (see link above).

Note: the inspection certificate is valid for one year.

3. NCIE verifies that the facility meets the inspection criteria and then notifies China. The facility then receives an APHIS approval number if they do not already have one.

4. China accepts APHIS approval and assigns a Chinese approval number.

Note: From APHIS' standpoint, the facility is now eligible to ship to China. However, there is also a Chinese registration process that must be completed separate from the APHIS approval process.

B. Process for Re-Inspections:

1. It is the exporter's responsibility to contact the APHIS area office prior to the expiration of the inspection certificate. (Note: APHIS prefers the exporter to contact them approximately two months before anniversary of the last inspection date so as to ensure enough time to schedule a re-inspection prior to expiration.)

2. The facility must then schedule an inspection. APHIS inspects the facility and forwards the inspection checklist to NCIE for approval.

3. If NCIE concurs, the IDEA ("Information Dissemination Electronic Access") system is updated. Assuming that the facility already has a China approval number, they have completed the APHIS portion of the process and should be eligible to export.

C. Process for Export Certification:

1. The exporting facility must be listed on the IDEA system for China.

2. The product to be exported must be free of all ruminant material (including dairy). The product must be tested for the presence of ruminant protein using the polymerase chain reaction ("PCR") test. At this time, the only acceptable laboratory is Genetic ID NA, Fairfield IA (tel: 641-472-9979). A copy of the test results must be attached to the export certificate.

3. The product must be exported using the MARCH 2004 version of the VS Form 16-4. THE CHINESE REGISTRATION NUMBER MUST APPEAR IN THE BOX WHERE THE NAME AND ADDRESS OF THE EXPORTER IS LISTED. This number is shown in the comments section for the facility. Do NOT use the APHIS approval number. Do NOT modify the certification statements. Product that does not meet these requirements is not permitted into China.

4. Note that the species of origin of the product must be listed in the box where the product is listed.

Steps Required in China

In addition to the above requirements, there is a separate registration approval process in China. China's regulatory requirements in this area are extremely complex. For example, China requires that samples be submitted beforehand for safety testing, and that product labels be submitted beforehand for approval. There are also numerous safety and toxicological tests that the pet food must undergo prior to being approved imported and for sale in China. For detailed information on these requirements, please contact one of the Foreign Agricultural Service (FAS) offices in China. Contact information for these offices can be found at:

http://www.fas.usda.gov/scripts/fasfield/ovs_directory_search.asp

Best practices

In order to ensure that you meet the above requirements, you should consider first exporting a smaller shipment to China to make sure everything is ok. In this way, if anything goes wrong, you will minimize your losses. In addition, you should keep receipts and other documentation issued by the Chinese authorities (e.g., China customs, China's Ministry of Agriculture, etc.) for future reference. If there is a problem in the future with the Chinese authorities, you may refer back to these prior receipts as an indication of what has been acceptable in the past. Finally, and most

important, always work closely with both APHIS and the FAS to ensure that you are aware of any changes in China's pet food regulations.

For More Information:

Area Veterinary Services offices (USDA):

<http://www.aphis.usda.gov/vs/ncie/iregs/products/vsavic.pdf> or
http://www.aphis.usda.gov/vs/area_offices.htm

FAS Offices in China:

ATO Beijing: atobeijing@usda.gov; Tel: (86-10) 8529-6418; Fax: (86-10) 8529-6692

ATO Shanghai: atoshanghai@usda.gov; Tel: (86-21) 6279-8622; Fax: (86-21) 6279-8336

ATO Guangzhou: atoguangzhou@usda.gov; Tel: (86-20) 8667-7553; Fax: (86-20) 8666-0703

The Pet Food Institute in Washington, D.C.:

http://www.petfoodinstitute.org/contact_pfi.cfm

American Pet Products Manufacturers Association:

<http://www.appma.org/>

China National Kennel Club:

<http://www.cnkc.org/en/index.php>

The China Business Information Center:

Jim Mathews: Jim.Mathews@ita.doc.gov or via telephone at 202-482-3787;

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Visit the China Business Information Center's website at www.export.gov/china.

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ⁱ See

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0..contentMDK:20680895~pagePK:141137~piPK:141127~theSitePK:318950,00.html>

ⁱⁱ See http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1143237132157/Key_Indicators_Tables_China.pdf

ⁱⁱⁱ See

http://www.euromonitor.com/articles.aspx?folder=China_changing_attitudes_to_pet_ownership_drive_pet_food_sales&industryfolder=Articles

^{iv} See

<http://unstats.un.org/unsd/comtrade/ce/ceSnapshot.aspx?px=H2&cc=230910&r=156&p=0&rg=1&y=2004,2003,2002,2001,2000&so=8>

^v See

<http://unstats.un.org/unsd/comtrade/dqBasicQueryResults.aspx?px=H2&cc=420100&r=156&p=0&rg=1&y=2005,2004,2003,2002,2001&so=8>, and

<http://unstats.un.org/unsd/comtrade/dqBasicQueryResults.aspx?px=H2&cc=330790&r=156&p=0&rg=1&y=2005,2004,2003,2002,2001&so=8>. Note: China's imports of items under HS# 420100 and HS# 330790 have increased 530% and 180%, respectively, since 2002. These figures do not necessarily reflect a increase in the number or value of imported pet collars/leashes or pet shampoo, as these tariff headings include a vast array of other products as well. That said, China's imports of items falling within this tariff heading have increased dramatically in the past few years.

^{vi} Australia:

<http://unstats.un.org/unsd/comtrade/dqBasicQueryResults.aspx?px=H2&cc=230910&r=156&p=764&rg=1&y=2005,2004,2003,2002,2001&so=8>

New Zealand:

<http://unstats.un.org/unsd/comtrade/dqBasicQueryResults.aspx?px=H2&cc=230910&r=156&p=554&rg=1&y=2005,2004,2003,2002,2001&so=8>

Thailand:

<http://unstats.un.org/unsd/comtrade/dqBasicQueryResults.aspx?px=H2&cc=230910&r=156&p=764&rg=1&y=2005,2004,2003,2002,2001&so=8>

^{vii} Evidence of the increase in China's domestic pet food production capacity can be seen in the increase of China's pet food exports to the US in recent years

<http://unstats.un.org/unsd/comtrade/dqBasicQueryResults.aspx?px=H2&cc=230910&r=842&p=156&rg=1&y=2005,2004,2003,2002,2001&so=8>

^{viii} See <http://www.gbcc.org.uk/30article2.htm>

^{ix} See <http://www.animalsasia.org/index.php?module=3&menupos=3&submenupos=1&item=3&lg=en>

^x See <http://www.china.org.cn/english/environment/163669.htm>

^{xi} See http://www.idsgroup.com/profile/pdf/china_update/3Q05%20YRD%20Update.pdf

^{xii} See <http://www.marketresearchworld.net/index.php?option=content&task=view&id=281&Itemid=>

^{xiii} See http://www.anheuser-busch.com/annual/2005/2004AR_InternationalBeerOperations.pdf

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